

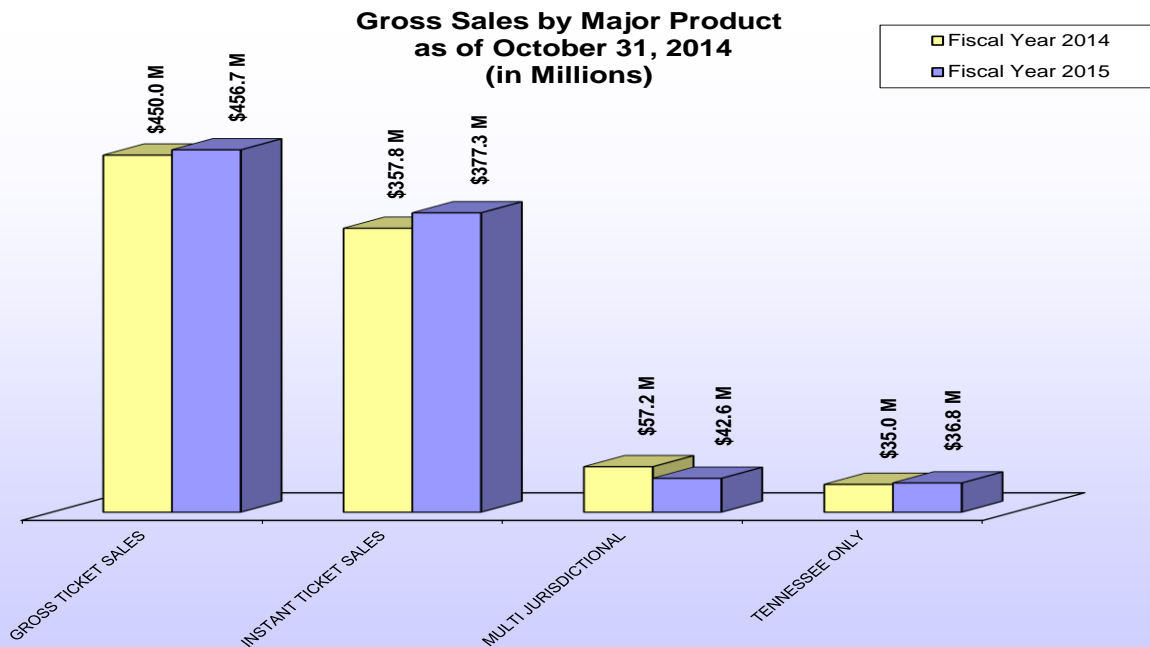
TENNESSEE EDUCATION LOTTERY CORPORATION
Funding Board
December 11, 2014

ESTIMATION OF
TOTAL AND NET LOTTERY PROCEEDS
FOR FISCAL YEARS ENDING
JUNE 30, 2015, 2016, 2017, 2018 and 2019

TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS

FISCAL YEAR ENDING JUNE 30, 2015

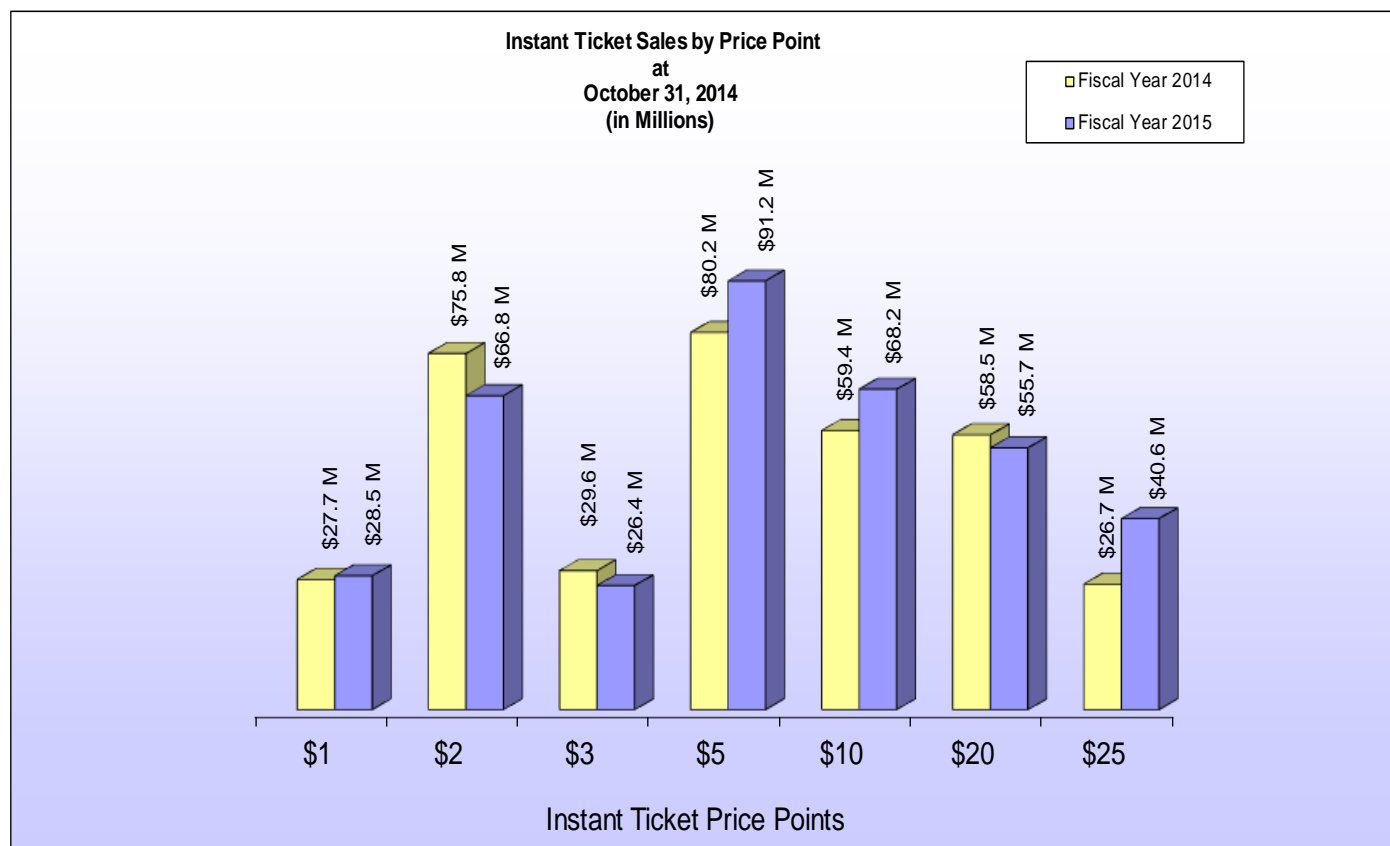
	As of 10/31/2014 (in millions)	As of 10/31/2013 (in millions)
Gross Sales	\$456	\$450
Weekly Average Sales	\$26.0	\$25.6
BY MAJOR PRODUCT:		
INSTANT GAMES	\$377	\$358
MULTIJURISDICTIONAL DRAW-STYLE GAMES		
Powerball	24	43
Mega Millions	13	10
Hot Lotto	5	4
Monopoly Millionaires Club	0.34	-
	\$42	\$57
TENNESSEE DRAW-STYLE GAMES		
Cash 3	19	19
Cash 4	11	10
Tennessee Cash	7	6
	\$37	\$35



**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEAR ENDING JUNE 30, 2015

	As of 10/31/14 (in millions)	Projected Annual Sales Range (in millions)
<i>INSTANT GAMES</i>	\$ 377.3	\$1,223.8 - \$1,228.5



- *Instant ticket sales* were \$377.3 million or \$21.5 million per week at October 31, 2014 compared to \$357.8 million or \$20.4 million per week the prior year, representing a 5.4% increase in instant ticket sales year over year.
- Fiscal year 2015 *Instant tickets* are projected to be between \$1.22 billion and \$1.23 billion. *Instant tickets* are 83% of our product mix at October 31, 2014. TEL's instant ticket sales for fiscal year 2015 are projected at 81% of total sales. The current percentage of sales is primarily related to player preferences and lack of significant jackpots with the multi-jurisdictional jackpot games.
- TEL anticipates launching approximately 47 games in fiscal year 2015, including a launch of game "families" similar to our wildly successful Jumbo Bucks family and most recently our Frenzy family in fiscal year 2014.
- *Instant ticket prize expense* is currently trending at 67.7%, which is slightly lower than our full year estimate at 68.3%.

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEAR ENDING JUNE 30, 2015

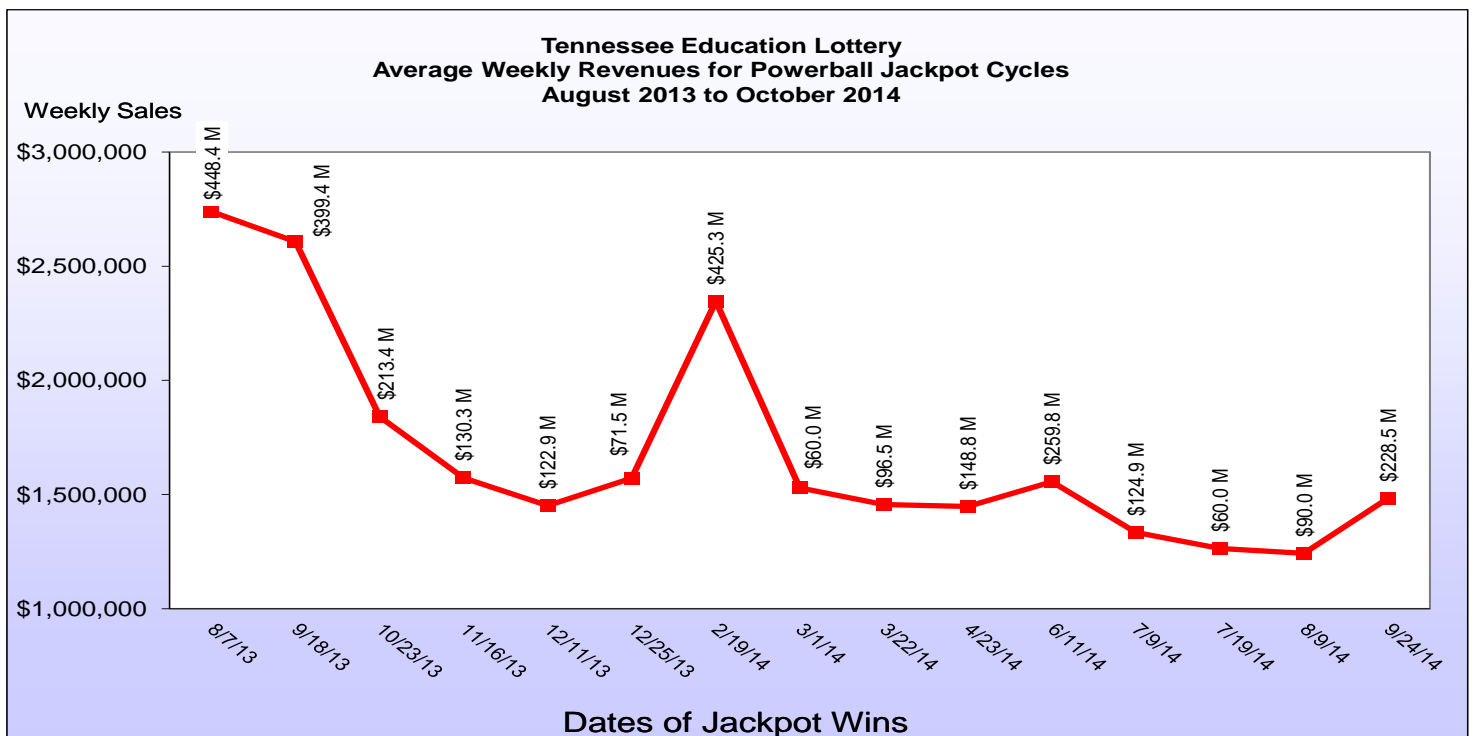
MULTI-JURISDICTIONAL GAMES

Multi-jurisdictional games, *Powerball*, *Mega Millions*, *Hot Lotto* and *Monopoly Millionaires Club*, were \$43 million at October 31, 2014 compared to \$57 in the prior year.

Multi-jurisdictional sales year over year are directly impacted by the size of the games' jackpots.

	As of 10/31/14 (in millions)	Projected Annual Sales Range (in millions)
<i>POWERBALL</i>	\$24.1	\$95 - \$110

- TEL's *Powerball* sales were \$24.1 million compared to the prior year's sales of \$42.6 million. The decline of \$18.5 million in this category is due to the lack of significant *Powerball* jackpot cycles to date in fiscal year 2015, compared to two jackpot cycles exceeding or near \$400 million in the first four months of the prior year.
- There is a planned game change to *Powerball* in April 2015, which will provide more opportunities for significantly larger jackpot cycles compared to the year to date cycles we have experienced to date.
- TEL's projected sales for fiscal year 2015 includes the expectation of two jackpot cycles in the \$400 + million range.

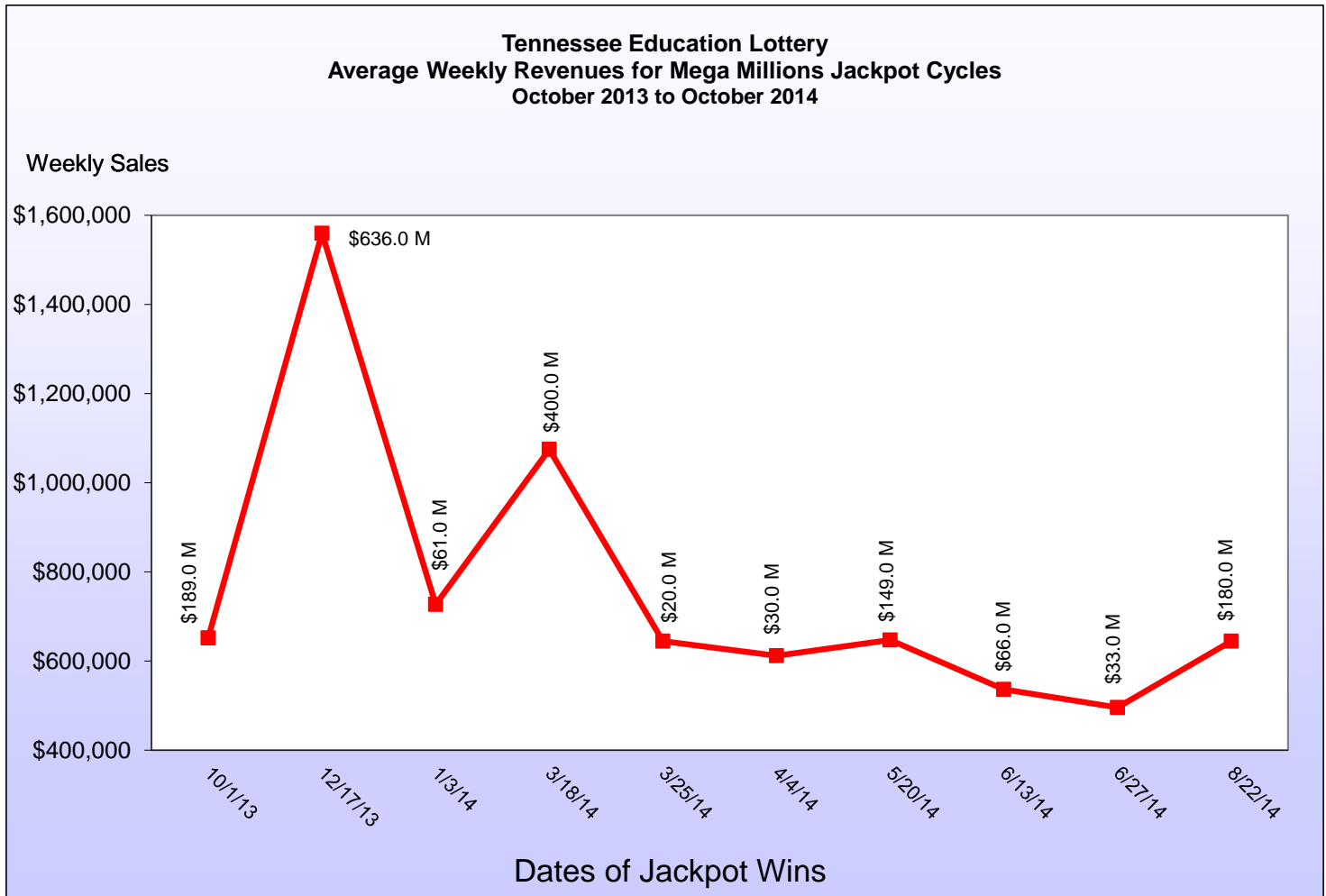


**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEAR ENDING JUNE 30, 2015

	As of 10/31/14 (in millions)	Projected Annual Sales Range (in millions)
MEGA MILLIONS	\$12.7	\$39 - \$42

- *Mega Millions* sales are averaging \$725 thousand per week through October 31, 2014.
- *Mega Millions* sales are \$2.5 million ahead of the prior period. We project Mega Millions sales at \$800 thousand per week for fiscal year 2015 based upon two jackpot cycles reaching between \$250 million and \$350 million during the remainder of the fiscal year.



**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEAR ENDING JUNE 30, 2015

	As of 10/31/14 (in millions)	Projected Annual Sales Range (in millions)
<i>HOT LOTTO</i>	\$5.4	\$12 - \$15

- Hot Lotto is a multi-jurisdictional drawing-style game, featuring cash (not annuitized) jackpots starting at \$1 million, with an average jackpot between \$5 to \$6 Million, and the withholding taxes paid.
- Hot Lotto is available in 15 jurisdictions.

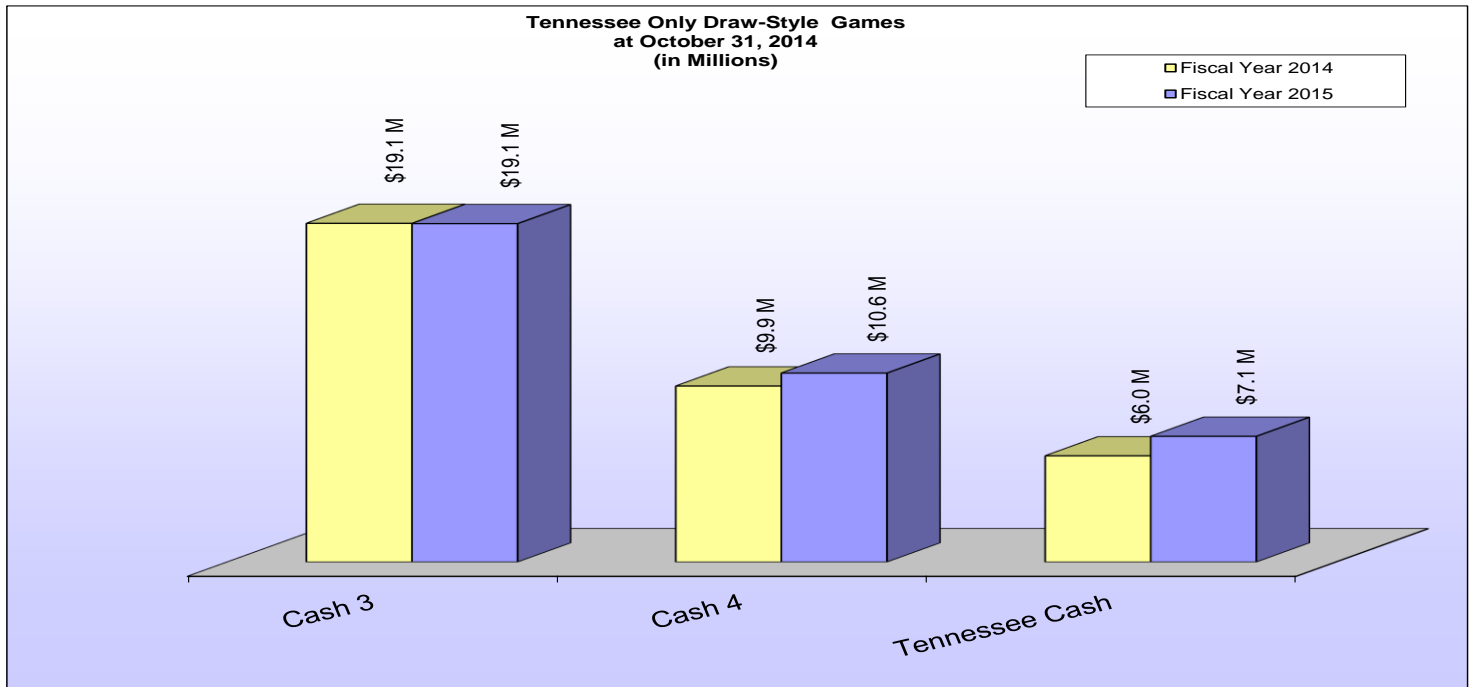
	As of 10/31/14 (in millions)	Projected Annual Sales Range (in millions)
<i>MONOPOLY MILLIONAIRES CLUB</i>	\$.331	\$6 - \$8

- Monopoly Millionaires Club was launched on October 19, 2014.
- The game is a nationally branded game, with coordinated marketing across all participating jurisdictions. Currently, 23 jurisdictions are participating, with the expectation of 31 jurisdictions participating by March 2015.
- The primary selling point for the game is three ways to become a millionaire on a single ticket:
 1. Match all five numbers and the Monopoly Property to win the top prize ranging from \$15 million dollars to \$25 million dollars.
 2. When the top prize is won, a set of Millionaire Club Numbers are drawn with each number winning \$1 million dollars. The number of \$1 million dollar prizes starts at 10 and increases each time the top prize is not won. Once the top prize reaches \$25 million, the \$1 million dollar prizes incrementally increase, with the potential of over 100 \$1 million dollar prizes awarded.
 3. Players can enter a second chance drawing to win an all-expense paid trip to Las Vegas, and a chance to be selected to participate in the game show for prizes up to \$1 million dollars. The primetime television game show is scheduled to start airing in February 2015.
- The tickets cost \$5 per play with a weekly drawing each Friday.

TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS

FISCAL YEAR ENDING JUNE 30, 2015

	As of 10/31/14 (in millions)	Projected Annual Sales Range (in millions)
<i>TENNESSEE ONLY DRAWING-STYLE GAMES</i>	\$36.8	\$108 - \$110



Tennessee Only games, *Cash 3*, *Cash 4* and *Tennessee Cash*, are 5.1% ahead of last year. At October 31, 2014, sales for this category were \$36.8 million compared to the prior period's \$35.0 million. *Tennessee Cash* is the major contributor in this category in the year over year increase, with two above average jackpot cycles occurring in the first four months of fiscal year 2015.

Cash 3 and Cash 4

- *Cash 3 and Cash 4* (3) times daily, six (6) days a week, and once on Sunday.
- As of October 31, 2014, *Cash 3* and *Cash 4* sales' weekly average of \$1.7 million is trending in line with the prior fiscal year.
- Fiscal year 2015 projected sales are \$58 million for *Cash 3* and \$31 million for *Cash 4*, which is consistent with the prior year.

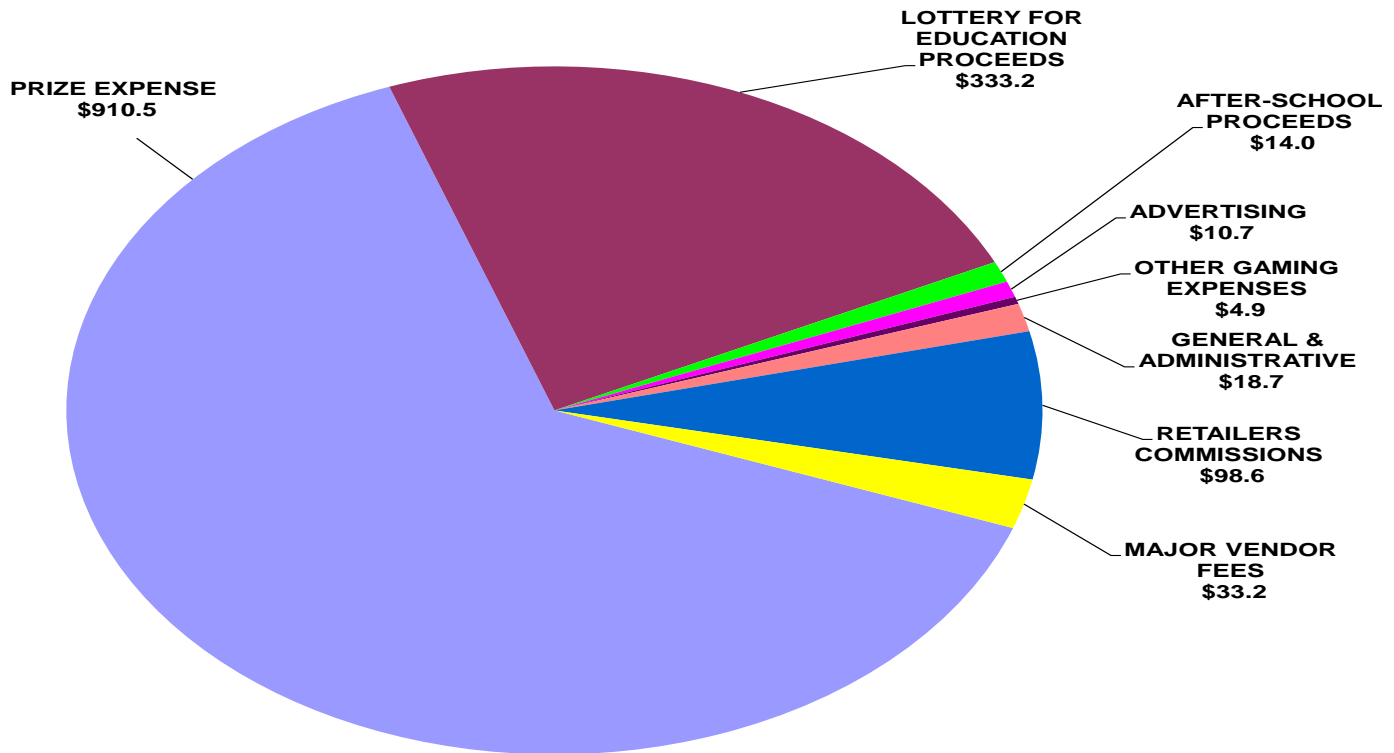
Tennessee Cash

- *Tennessee Cash* is a drawing-style cash jackpot game available only in Tennessee.
- TEL currently projects *Tennessee Cash* sales of \$19 million to \$21 million for fiscal year 2015.

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEAR ENDING JUNE 30, 2015

**FISCAL YEAR 2015 BUDGETED EXPENSES
(in millions)**



Direct Gaming-Related Expenses

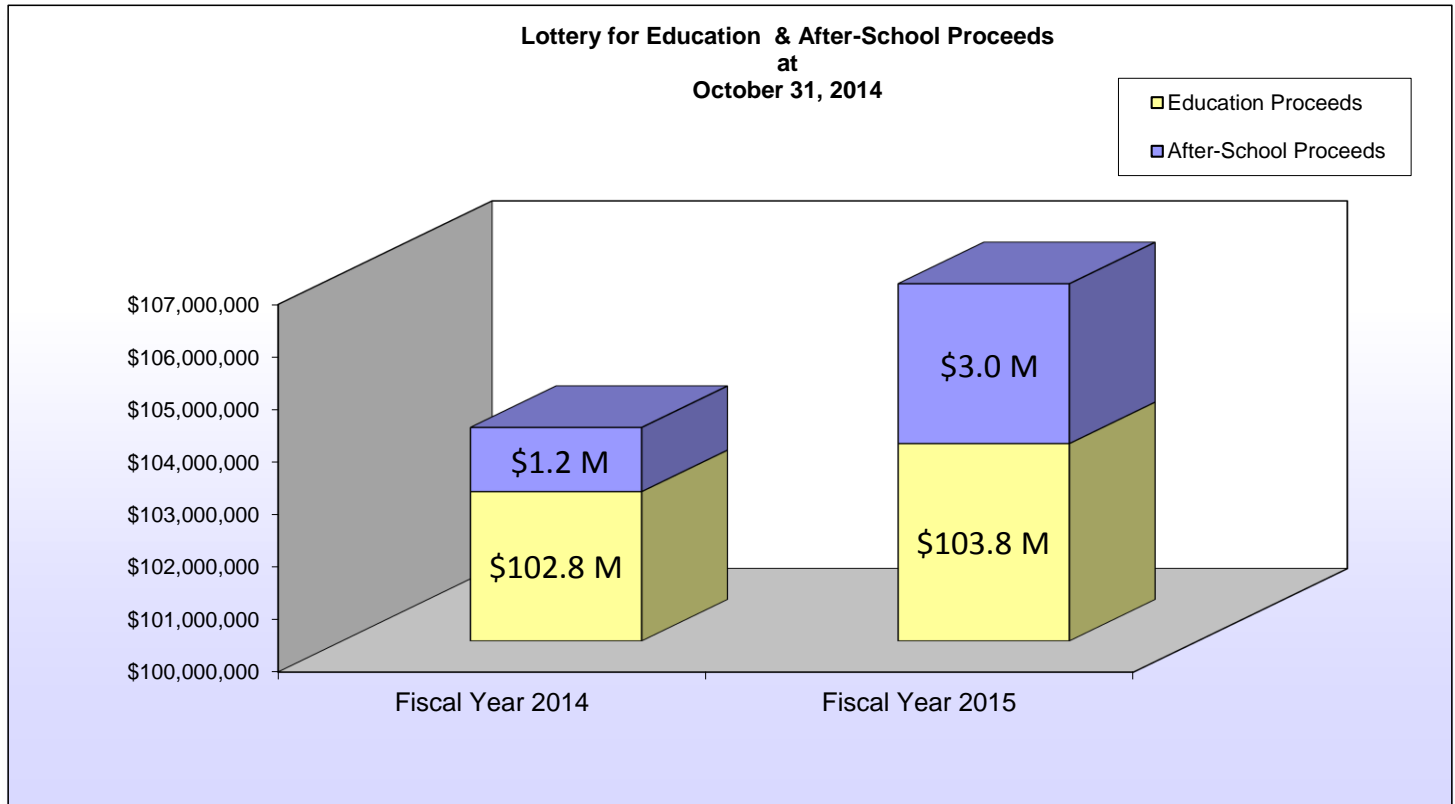
- Aggregate Prize Expense for all Games is projected at **64.6%** of Total Revenues, compared to fiscal year 2014's 64.3%.
- Aggregate Prize Expense for Instant Games is projected at **68.3%** of Total Revenues, which is consistent with fiscal year 2014's 68.3%.
- Aggregate Prize Expense for Drawing-style Games is projected at **50.0%** of Total Revenues, which is historically the prize expense expected for draw style games.
- Retailer sales commissions are **6.5%** of Gross Sales, with additional commissions for selling winning drawing-style tickets of \$1 million or more and cashing tickets for *Cash 3* and *Cash 4*.
- Major gaming vendors' fees are a percentage of sales per the terms of each contract. The percentages are approximately **2.3%** on instant tickets and **1.1999%** of net ticket sales of all drawing-style games. The TEL successfully negotiated two major vendor contracts resulting in lower rates, which will provide approximately \$21 million dollars in savings over the next seven years.

Non-Direct Expenses

- Advertising is estimated at **\$ 10.7** million or **.8%** of Gross Sales.
- Other Gaming is estimated at **\$ 4.9** million or **.3%** of Gross Sales.
- General and Administrative is estimated at **\$ 18.7** million, or **1.3%** of Gross Sales.

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEAR ENDING JUNE 30, 2015



Lottery for Education Proceeds

- \$103.6 million as of 10/31/2014
- \$102.8 million as of 10/31/2013

Projected Fiscal Year 2015 Range

\$328 – \$333 Million

After-School Program Proceeds

- \$3.0 million as of 10/31/2014
- \$1.2 million as of 10/31/2013
- Represents actual/realized unclaimed monies
- Significantly impacted by: (1) timing of instant games' closings and (2) large drawing-style game prizes not claimed

Projected Fiscal Year 2015 Range

\$13.5 – 14.0 Million

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEAR ENDING JUNE 30, 2015

		Fiscal Year 2015 as of 10/31/2014	TEL Fiscal Year 2015 Low Range	TEL Fiscal Year 2015 High Range	Fiscal Year 2015 Approved Budget	Fiscal Year 2014 Actual
Lottery Proceeds						
Sales:						
	Instant Games	\$377,340,000	\$ 1,228,500,000	\$ 1,235,000,000	\$ 1,228,500,000	\$ 1,149,127,000
	Drawing-Style Games	79,368,000	256,000,000	271,700,000	283,700,000	267,940,000
	Gross Ticket Sales	\$456,708,000	\$ 1,484,500,000	\$ 1,506,700,000	\$ 1,512,200,000	\$ 1,417,067,000
	Instant Games	\$ (32,450,000)	\$ (104,423,000)	\$ (104,975,000)	\$ (104,423,000)	\$ (96,288,000)
	Drawing-Style Games	\$ (579,000)	\$ (1,423,000)	\$ (1,630,000)	\$ (1,577,000)	\$ (1,524,000)
	Less: Tickets Provided as Prizes	(33,029,000)	(105,846,000)	(106,605,000)	(106,000,000)	(97,812,000)
	Net Ticket Sales	\$423,679,000	\$ 1,378,654,000	\$ 1,400,095,000	\$ 1,406,200,000	\$ 1,319,255,000
	Other Revenues	1,684,000	3,645,000	3,645,000	3,645,000	4,317,000
	Total Lottery Proceeds (Net Revenues)	\$ 425,363,000	\$ 1,382,299,000	\$ 1,403,740,000	\$ 1,409,845,000	\$ 1,323,572,000
Expenses:						
	Instant Prize Winnings	233,430,000	765,520,000	771,581,000	768,869,000	718,893,000
	Draw Style Prize Winnings	40,065,000	127,289,000	135,035,000	141,594,000	131,898,000
	Prize Winnings	\$273,495,000	\$ 892,809,000	\$ 906,616,000	\$ 910,463,000	\$ 850,791,000
	Retailer Commissions	29,804,000	96,876,000	98,649,000	98,649,000	92,492,000
	Vendor Fees	9,112,000	29,651,000	30,802,000	33,204,000	28,614,000
	Direct Expenses	\$ 312,411,000	\$ 1,019,336,000	\$ 1,036,067,000	\$ 1,042,316,000	\$ 971,897,000
	Non Direct Expenses	9,270,000	34,268,000	34,268,000	34,268,000	28,694,000
	Total Expenses	\$ 321,681,000	\$ 1,053,604,000	\$ 1,070,335,000	\$ 1,076,584,000	\$ 1,000,591,000
	Lottery for Education Proceeds	\$ 103,682,000	\$ 328,695,000	\$ 333,405,000	\$ 333,261,000	\$ 322,981,000
	After-School Program Proceeds	\$ 3,042,000	\$ 13,500,000	\$ 14,000,000	\$ 14,000,000	\$ 14,291,000

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEARS ENDING JUNE 30, 2016, 2017, 2018 and 2019

		Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019
Total Lottery Proceeds		\$1,536- \$1,558 Million	\$1,589- \$1,613 Million	\$1,645- \$1,669 Million	\$1,703- \$1,728 Million
Lottery for Education Proceeds		\$333-\$340 Million	\$340 -\$346 Million	\$346-\$353 Million	\$353-\$361 Million
After-School Programs Proceeds		\$13 - \$14 Million	\$14 - \$15 Million	\$14 - \$15 Million	\$15 - \$16 Million
Total Education Funding		\$346 - \$354 Million	\$354 - \$361 Million	\$360 - \$368 Million	\$368 - \$377 Million

Over the last five (5) fiscal years, TEL's average annual Lottery for Education Proceeds growth was 3.2 % compared to the lottery industry's beneficiary funding growth of 2%, excluding the highest and lowest growth years to adjust for anomalies.

Based on TEL's and the industry year-over-year growth in the most recent fiscal years, we project Lottery for Education proceeds growth in Fiscal Years 2016, 2017, 2018 and 2019 to average 2% annually.

After-School Programs Proceeds

After-School Programs Proceeds are projected based on the five year historical unclaimed prize experience of slightly less than 1.6% of prize expense.